

LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY  
INDEPENDENT AUDITOR'S REPORTS  
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

DECEMBER 31, 2007

LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY

LAURENS, IOWA

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LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY

LAURENS, IOWA

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Brad Olsen	Trustee	April, 2009
Robert O. Braesch	Trustee	April, 2011
Richard Main	Trustee	April, 2013

HUNZELMAN, PUTZIER & CO., PLC  
CERTIFIED PUBLIC ACCOUNTANTS

JEFFORY B. STARK, C.P.A.  
KEITH C. GERMANN, C.P.A.  
RICHARD R. MOORE, C.P.A.  
WESLEY E. STILLE, C.P.A. (RETIRED)  
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INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Laurens Municipal Broadband Communications Utility  
Laurens, Iowa

We have audited the accompanying balance sheets of Laurens Municipal Broadband Communications Utility, a component unit of City of Laurens, as of and for the years ended December 31, 2007 and 2006, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Utility's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Laurens Municipal Broadband Communications Utility as of December 31, 2007 and 2006, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 18, 2008, on our consideration of Laurens Municipal Broadband Communications Utility's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Management's Discussion and Analysis on pages 5 through 8 is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Hunzelman, Putzier & Co.*

June 23, 2008

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Laurens Municipal Broadband Communications Utility provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the year ended December 31, 2007. We encourage readers to consider this information in conjunction with the Utility's financial statements, which follow.

### **FINANCIAL HIGHLIGHTS**

- The Utility's operating revenues were relatively unchanged, increasing by only \$168 from 2006 to 2007.
- The Utility's operating expenses were 7%, or \$68,950, more in 2007 than in 2006.
- The Utility's net assets decreased 3%, or \$18,549, from December 31, 2006 to December 31, 2007.

### **USING THIS ANNUAL REPORT**

Laurens Municipal Broadband Communications Utility is a single Enterprise Fund and presents its financial statements using the economic resources measurement focus and accrual basis of accounting which is the same measurement focus and basis of accounting employed by private sector business enterprises. This discussion and analysis are intended to serve as an introduction to Laurens Municipal Broadband Communications Utility's financial statements. The annual report consists of a series of financial statements and other information, as follows:

- Management's Discussion and Analysis introduces the financial statements and provides an analytical overview of the Utility's financial activities.
- The Balance Sheets present information on the Utility's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Utility is improving or deteriorating.
- The Statements of Revenues, Expenses and Changes in Net Assets is the basic statement of activities for proprietary funds. This statement presents information on the Utility's operating revenues and expenses, non-operating revenues and expenses, and whether the Utility's financial position has improved or deteriorated as a result of the year's activities.
- The Statements of Cash Flows present the change in the Utility's cash and cash equivalents during the year. This information can assist the user of the report in determining how the Utility financed its activities and how it met its cash requirements.
- The Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

## FINANCIAL ANALYSIS OF THE UTILITY

### Statements of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of the Utility's financial position. The Utility's net assets for 2007 totaled approximately \$663,000. This compares to approximately \$681,000 for 2006. A summary of the Utility's net assets is presented below.

	<u>2007</u>	<u>2006</u>
Current assets	\$508,821	\$492,127
Capital assets at cost, less accumulated depreciation	<u>361,663</u>	<u>407,080</u>
Total assets	<u>870,484</u>	<u>899,207</u>
Current liabilities	<u>207,613</u>	<u>217,787</u>
Total liabilities	<u>207,613</u>	<u>217,787</u>
Net assets:		
Invested in capital assets, net of related debt	361,663	407,080
Unrestricted	<u>301,208</u>	<u>274,340</u>
Total net assets	<u>\$662,871</u>	<u>\$681,420</u>

The largest portion of the Utility's net assets (55%) is invested in capital assets (e.g., land, buildings, and equipment), less the related debt. The remaining net assets (45%) are the unrestricted net assets that can be used to meet the Utility's obligations as they come due.

## FINANCIAL ANALYSIS OF THE UTILITY – (Continued)

### Statements of Revenues, Expenses, and Changes in Net Assets

Operating revenues are received for providing cable, internet, and telephone services to the residents of the City. Operating expenses are expenses paid to operate the Utility. The utilization of capital assets is reflected in the financial statements as depreciation, which allocates the cost of an asset over its expected useful life. A summary of revenues, expenses, and changes in net assets for the years ended December 31, 2007 and 2006, is presented below:

	<u>Changes in Net Assets</u>	
	<u>2007</u>	<u>2006</u>
Operating revenues:		
Cable services	\$ 223,673	\$ 204,265
Telephone services	468,057	528,383
Internet services	151,823	138,830
Other operating revenue	<u>178,069</u>	<u>149,976</u>
Total operating revenue	<u>1,021,622</u>	<u>1,021,454</u>
Operating expenses:		
Cable and internet services	298,638	276,099
Telephone services	383,628	372,928
Depreciation	99,783	89,465
Customers' accounts expense	2,233	4,565
Administrative and general expense	215,553	196,516
Head end expenses – maintenance	10,810	5,075
Head end expenses - operations	<u>29,526</u>	<u>26,573</u>
Total operating expenses	<u>1,040,171</u>	<u>971,221</u>
Increase (decrease) in net assets	(18,549)	50,233
Net assets, beginning of year	<u>681,420</u>	<u>631,187</u>
Net assets, end of year	<u>\$ 662,871</u>	<u>\$ 681,420</u>

The Statements of Revenues, Expenses, and Changes in Net Assets reflect a negative year with a decrease in the net assets from 2006 to 2007.

The Utility's operating expenses increased 7%, or \$68,950, from 2006 to 2007, because of the addition of digital cable television services and the upgrade of the distribution system from 750 Mhz to 1000 Mhz.

### Statements of Cash Flows

The Statements of Cash Flows present information related to cash inflows and outflows, summarized by operating, and capital and related financing activities. Cash provided by operating activities includes charges for service reduced by payments to employees and to suppliers. Cash used from capital and related financing activities includes the purchase of capital assets.

## **CAPITAL ASSETS**

At December 31, 2007, the Utility had approximately \$362,000 invested in capital assets, net of accumulated depreciation of approximately \$707,000. Depreciation charges totaled \$99,783 for 2007. More detailed information about the Utility's capital assets is presented in Note 3 to the financial statements and in Schedule 1 of the supplementary information.

## **ECONOMIC FACTORS**

The current condition of the economy in the state continues to be a concern for Utility officials. Some of the realities that may potentially become challenges for the Utility to meet are:

- Facilities at the Utility require constant maintenance and upkeep.
- Technology continues to expand and current technology becomes outdated presenting an on-going challenge to maintain up to date technology at a reasonable cost.
- Staying competitive with the large nation-wide companies not only with the services offered but also the price of these services.

## **CONTACTING THE UTILITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Utility's finances and to show the Utility's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Laurens Municipal Power and Communications Utility, 272 N. Third Street, Laurens, Iowa.



LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY  
BALANCE SHEETS  
DECEMBER 31, 2007 AND 2006

Exhibit A

ASSETS

	<u>2007</u>			<u>2006</u>
	<u>Telephone</u>	<u>CATV &amp; Internet</u>	<u>Total</u>	<u>Total</u>
<u>CAPITAL ASSETS</u>				
Utility plant in service	\$ 103,544	\$964,764	\$1,068,308	\$1,013,942
Less accumulated depreciation	<u>83,260</u>	<u>623,385</u>	<u>706,645</u>	<u>606,862</u>
Total net capital assets	<u>20,284</u>	<u>341,379</u>	<u>361,663</u>	<u>407,080</u>
<u>CURRENT ASSETS</u>				
Cash and cash equivalents	481,308	(387,851)	93,457	117,779
Accounts receivable (less provision for doubtful accounts of \$7,000 in 2007 and \$5,000 in 2006)	60,655	29,589	90,244	103,007
Due from electric utility	322,746	-	322,746	269,034
Prepaid expenses	<u>1,662</u>	<u>712</u>	<u>2,374</u>	<u>2,307</u>
Total current assets	<u>866,371</u>	<u>(357,550)</u>	<u>508,821</u>	<u>492,127</u>
Total assets	<u>\$886,655</u>	<u>\$ (16,171)</u>	<u>\$ 870,484</u>	<u>\$899,207</u>

LIABILITIES AND NET ASSETS

<u>CURRENT AND ACCRUED LIABILITIES</u>				
Accounts payable	\$102,589	\$ 96,079	\$198,668	\$205,306
Other current and accrued liabilities	<u>6,002</u>	<u>2,943</u>	<u>8,945</u>	<u>12,481</u>
Total current and accrued liabilities	<u>108,591</u>	<u>99,022</u>	<u>207,613</u>	<u>217,787</u>
<u>NET ASSETS</u>				
Invested in capital assets, net of related debt	20,284	341,379	361,663	407,080
Unrestricted	<u>757,780</u>	<u>(456,572)</u>	<u>301,208</u>	<u>274,340</u>
Total net assets	<u>778,064</u>	<u>(115,193)</u>	<u>662,871</u>	<u>681,420</u>
Total liabilities and net assets	<u>\$886,655</u>	<u>\$ (16,171)</u>	<u>\$870,484</u>	<u>\$899,207</u>

The accompanying notes are an integral part of this statement.

LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY  
STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

Exhibit B

	<u>2007</u>			<u>2006</u>
	<u>Telephone</u>	<u>CATV &amp; Internet</u>	<u>Total</u>	<u>Total</u>
<u>OPERATING REVENUES</u>	<u>\$621,466</u>	<u>\$400,156</u>	<u>\$1,021,622</u>	<u>\$1,021,454</u>
<u>OPERATING EXPENSES</u>				
CATV and internet services	-	298,638	298,638	276,099
Telephone services	383,628	-	383,628	372,928
Depreciation and amortization	8,606	91,177	99,783	89,465
Customers' accounts expense	1,233	1,000	2,233	4,565
Administrative and general expense	154,108	61,445	215,553	196,516
Head end expenses - maintenance	1,924	8,886	10,810	5,075
Head end expenses - operations	<u>11,824</u>	<u>17,702</u>	<u>29,526</u>	<u>26,573</u>
Total operating expenses	<u>561,323</u>	<u>478,848</u>	<u>1,040,171</u>	<u>971,221</u>
Change in net assets	60,143	(78,692)	(18,549)	50,233
Net assets, beginning of year	<u>717,921</u>	<u>(36,501)</u>	<u>681,420</u>	<u>631,187</u>
Net assets, end of year	<u>\$778,064</u>	<u>\$ (115,193)</u>	<u>\$ 662,871</u>	<u>\$ 681,420</u>

The accompanying notes are an integral part of this statement.

LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

Exhibit C

	<u>2007</u>			<u>2006</u>
	<u>Telephone</u>	<u>CATV &amp; Internet</u>	<u>Total</u>	<u>Total</u>
<u>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS – CASH FLOWS FROM OPERATING ACTIVITIES:</u>				
Cash received from customers	\$636,078	\$398,307	\$1,034,385	\$1,027,200
Cash paid to suppliers and employees	(477,090)	(360,761)	(837,851)	(763,877)
Cash paid to employees	(77,285)	(35,493)	(112,778)	(107,958)
Net cash provided by operating activities	<u>81,703</u>	<u>2,053</u>	<u>83,756</u>	<u>155,365</u>
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>				
Advances to electric utility	<u>(53,712)</u>	<u>-</u>	<u>(53,712)</u>	<u>(26,243)</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>				
Additions to utility plant	<u>(3,758)</u>	<u>(50,608)</u>	<u>(54,366)</u>	<u>(44,281)</u>
<u>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u>	<u>24,233</u>	<u>(48,555)</u>	<u>(24,322)</u>	<u>84,841</u>
Cash and cash equivalents at beginning of year	<u>457,075</u>	<u>(339,296)</u>	<u>117,779</u>	<u>32,938</u>
<u>CASH AND CASH EQUIVALENTS AT END OF YEAR</u>	<u>\$481,308</u>	<u>\$(387,851)</u>	<u>\$ 93,457</u>	<u>\$ 117,779</u>
<u>RECONCILIATION OF NET INCOME (LOSS) TO CASH PROVIDED BY OPERATING ACTIVITIES:</u>				
Net income (loss)	<u>\$ 60,143</u>	<u>\$ (78,692)</u>	<u>\$ (18,549)</u>	<u>\$ 50,233</u>
Adjustments to reconcile operating income (loss) to cash provided by operations:				
Depreciation	8,606	91,177	99,783	89,465
Changes in assets and liabilities:				
Decrease (increase) in accounts receivable	14,612	(1,849)	12,763	5,746
Decrease in prepaid expenses	(47)	(20)	(67)	(564)
Increase (decrease) in accounts payable	956	(7,594)	(6,638)	10,841
Increase in other liabilities	<u>(2,567)</u>	<u>(969)</u>	<u>(3,536)</u>	<u>(356)</u>
Total adjustments	<u>21,560</u>	<u>80,745</u>	<u>102,305</u>	<u>105,132</u>
Net cash provided by operating activities	<u>\$ 81,703</u>	<u>\$ 2,053</u>	<u>\$ 83,756</u>	<u>\$ 155,365</u>

The accompanying notes are an integral part of this statement.

LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2007 AND 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Laurens Municipal Broadband Communications Utility is a component unit of City of Laurens. The Mayor appoints the trustees of the Utility subject to approval by the City Council. The City Council also approves the Utility's operating budget.

Laurens Municipal Broadband Communications Utility provides telephone, cable, and internet services to consumers in Laurens, Iowa. Sale of local telephone, cable, and internet services are billed on the twentieth of each month for service from the first to the end of the month billed. Sales of long distance telephone service are billed on the twentieth of each month for usage through the fifteenth of the month. An unbilled receivable in the amount of \$2,031 has been recorded (\$2,518 at December 31, 2006) for the period December 15 through December 31. Laurens Municipal Broadband Communications Utility is billed by their telephone, cable, and internet providers on a calendar month basis.

The Utility's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Reporting Entity

For financial reporting purposes, Laurens Municipal Broadband Communications Utility has included all funds, organizations, agencies, boards, commissions, and authorities. The Utility has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Utility are such that exclusion would cause the Utility's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Utility to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the Utility. Laurens Municipal Broadband Communications Utility has no component units which meet the Governmental Accounting Standards Board criteria.

Basis of Presentation

The accounts of Laurens Municipal Broadband Communications Utility are organized as an Enterprise Fund. Enterprise Funds are used to account for operations (a) financed and operated in a manner similar to private business enterprises, where the intent of the governing body is the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2007 AND 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Measurement Focus and Basis of Accounting

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Utility applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

The Utility distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Utility's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Cash, Investments, and Cash Equivalents - Investments are carried at cost which approximates market value. For the purpose of reporting cash flows, cash and cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Utility Plant - Utility plant is stated at cost. Cost of labor, materials, supervision, and other costs incurred making improvements and replacements to the system, except minor replacements, are charged to the plant accounts while such costs incurred in making normal repairs, minor replacements, and maintaining the assets in efficient operating condition are charged to expense.

Provisions for depreciation of distribution plant are computed on a straight-line basis employing a group method. The original costs of assets retired (not constituting the sale of an operating unit or system) together with the costs of removal less salvage are charged to the related accumulated depreciation accounts. In accounting for the sale of operating units or systems, gains or losses are reflected in net revenue.

Provisions for depreciation of general plant are computed on a straight-line basis employing the unit depreciation method. The original cost of property retired is removed from the general plant accounts and the related accumulated depreciation accounts are charged for the depreciation taken to date. Gain or loss is recognized to the extent that the salvage value of the assets retired exceeds or falls short of the remaining book value of the assets retired.

Compensated Absences - Utility employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death, or retirement. The Utility's liability for accumulated vacation has been computed based on rates of pay in effect at December 31, 2007.

Budgets and Budgetary Accounting - The Board of Trustees annually adopts a budget on the accrual basis following required public notice and hearing in accordance with the Code of Iowa. The budget may be amended during the year utilizing similar statutorily prescribed procedures.

LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2007 AND 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The following is a comparison of revenues, expenses, and changes in net assets - actual to budget:

	<u>Actual</u>	<u>Budgeted Amounts</u>	<u>Actual to Budget Variance</u>
Revenues:			
Use of money and property	\$ 13,680	\$ 20,000	\$ (6,320)
Charges for services	1,000,694	955,000	45,694
Miscellaneous	7,248	110,000	(102,752)
	<u>1,021,622</u>	<u>1,085,000</u>	<u>(63,378)</u>
Expenses	<u>1,040,171</u>	<u>1,070,000</u>	<u>29,829</u>
Net	(18,549)	15,000	(33,549)
Net assets, beginning of year	<u>681,420</u>	<u>677,187</u>	<u>4,233</u>
Net assets, end of year	<u>\$ 662,871</u>	<u>\$ 692,187</u>	<u>\$ (29,316)</u>

2. DEPOSITS

The Utility's deposits in banks at December 31, 2007, were entirely covered by Federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utility is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest rate risk - The Utility's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397, days but the maturities shall be consistent with the needs and use of the Utility.

The Utility had no investments meeting the disclosure requirements of *Governmental Auditing Standards Board* Statement Number 3, as amended by Statement Number 40.

3. PLANT AND DEPRECIATION PROCEDURES

Listed below are the major classes of plant as of December 31, 2007 and 2006:

	<u>Telephone</u>	<u>CATV &amp; Internet</u>	<u>Total</u>	<u>2006 Total</u>
Distribution plant	\$ 59,681	\$927,989	\$ 987,670	\$ 940,438
Other equipment	43,863	36,775	80,638	73,504
Total plant	<u>\$103,544</u>	<u>\$964,764</u>	<u>\$1,068,308</u>	<u>\$1,013,942</u>

Provision for depreciation and amortization has been computed at straight-line rates over the estimated useful lives of the property.

LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2007 AND 2006

4. PENSION AND RETIREMENT BENEFITS

The Utility contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.90% (3.70% through June 30, 2007) of their annual covered salary and the Utility is required to contribute 6.05% (5.75% through June 30, 2007) of annual covered payroll. Contribution requirements are established by State statute. The Utility's contribution to IPERS for the years ending December 31, 2007, 2006, and 2005, were \$6,196, \$5,408, and \$5,237, respectively, equal to the required contributions for each year.

5. RISK MANAGEMENT

Laurens Municipal Broadband Communications Utility is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Utility assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

6. SIGNIFICANT AREA CONCENTRATION OF CREDIT RISK

The Utility extends credit to its customers on terms no more favorable than standard terms of the industry it serves. A substantial portion of the Utility's customers are located in Laurens, Iowa. The Utility's credit risks have been anticipated and management believes that adequate provision has been made for doubtful accounts.

7. RELATED PARTY TRANSACTION

Pursuant to Iowa Code Chapter 28E.18 concerning the joint use of facilities through sharing agreements, the Laurens Municipal Broadband Communications Utility and the Laurens Municipal Light and Power Plant have entered into an agreement whereby the Communications Utility shall pay the Electric Utility the sum of \$175,000 on or before the first day of June each year for the use of a portion of the Communications distribution system for the previous calendar year. The term of this agreement is forty years and payments are due June 1 of each year.

HUNZELMAN, PUTZIER & CO., PLC  
CERTIFIED PUBLIC ACCOUNTANTS

JEFFORY B. STARK, C.P.A.  
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Board of Trustees  
Laurens Municipal Broadband Communications Utility  
Laurens, Iowa

The primary purpose of our examination was to formulate an opinion on the financial statements taken as a whole. The additional information presented in the following pages was prepared on the basis of audit procedures applied in our examination of the financial statements. This information, while not considered necessary for fair presentation of the financial statements is, in our opinion, fairly stated in all material respects when considered in relation to the financial statements taken as a whole.

June 23, 2008

*Hunzelman, Putzier & Co.*



LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY  
STATEMENTS OF OPERATIONS  
YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>			<u>2006</u>
	<u>Telephone</u>	<u>CATV &amp; Internet</u>	<u>Total</u>	<u>Total</u>
<u>OPERATING REVENUES</u>				
Sale of cable services:				
Basic and digital cable	\$ -	\$223,673	\$ 223,673	\$204,265
Sale of telephone services:				
Local	201,048	-	201,048	219,170
Long distance	54,387	-	54,387	67,706
Access fees	212,622	-	212,622	241,507
Internet	-	151,823	151,823	138,830
Transport fee credits	90,900	-	90,900	90,900
Special circuits	20,790	-	20,790	20,808
Other	14,755	-	14,755	5,484
USAC - High cost	1,836	-	1,836	6,934
Wireless phone sales/commissions	22,460	-	22,460	-
Tower lease fees	-	13,680	13,680	13,680
Converters	-	6,400	6,400	5,984
Miscellaneous	<u>2,668</u>	<u>4,580</u>	<u>7,248</u>	<u>6,186</u>
Total operating revenue	<u>621,466</u>	<u>400,156</u>	<u>1,021,622</u>	<u>1,021,454</u>
<u>OPERATING EXPENSES</u>				
Cost of service:				
Basic and digital programming	-	166,276	166,276	143,472
Internet fees	-	41,962	41,962	37,228
Transport fees	23,522	5,400	28,922	24,190
Switching fees	76,326	-	76,326	79,017
Long distance fees	72,333	-	72,333	79,683
Access fees	81,195	-	81,195	91,658
Billing fees	20,562	-	20,562	20,930
Illuminet fees	3,369	-	3,369	3,008
Directory listing fees	5,094	-	5,094	4,841
Wireless fees	11,227	-	11,227	-
Joint use fees	<u>90,000</u>	<u>85,000</u>	<u>175,000</u>	<u>165,000</u>
Total cost of service	<u>383,628</u>	<u>298,638</u>	<u>682,266</u>	<u>649,027</u>
Head end system:				
Wages and benefits	6,472	8,767	15,239	13,476
Operating expenses and supplies	5,352	8,935	14,287	11,029
Customers' installation expense	-	-	-	2,068
Maintenance and repairs	1,103	8,177	9,280	3,700
Buildings and grounds	821	709	1,530	1,375
Depreciation	<u>5,968</u>	<u>89,045</u>	<u>95,013</u>	<u>85,233</u>
Total head end system	<u>19,716</u>	<u>115,633</u>	<u>135,349</u>	<u>116,881</u>
Customers' accounts expense:				
Bad debt expense	<u>1,233</u>	<u>1,000</u>	<u>2,233</u>	<u>4,565</u>
Administrative and general expense:				
Administrative and general salaries	72,505	26,621	99,126	93,869
Office supplies and postage	7,975	3,766	11,741	12,416
Audits, legal, and consultation services	24,627	3,670	28,297	5,267
Property insurance	<u>3,457</u>	<u>1,479</u>	<u>4,936</u>	<u>4,672</u>

(Continued)

LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY  
STATEMENTS OF OPERATIONS  
YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>			<u>2006</u>
	<u>Telephone</u>	<u>CATV &amp; Internet</u>	<u>Total</u>	<u>Total</u>
<u>OPERATING EXPENSES - (Continued)</u>				
Administrative and general expense: (Continued)				
Compensation insurance	\$ 2,049	\$ 878	\$ 2,927	\$ 3,061
Employees' group insurance	18,100	8,145	26,245	29,621
Trustees' fees	630	270	900	900
Dues and subscriptions	2,515	1,280	3,795	4,766
Franchise requirement - cost of services to City of Laurens	480	12,279	12,759	10,976
Legal publications	1,075	461	1,536	1,336
Advertising and promotion	2,535	1,065	3,600	1,917
Convention, meeting, and travel expense	536	91	627	894
Depreciation	2,638	2,132	4,770	4,232
Motor vehicle and work equipment expense	2,523	694	3,217	2,799
E911 fees	9,450	-	9,450	9,721
Miscellaneous	<u>5,651</u>	<u>746</u>	<u>6,397</u>	<u>14,301</u>
Total administrative and general expense	<u>156,746</u>	<u>63,577</u>	<u>220,323</u>	<u>200,748</u>
Total operating expense	<u>561,323</u>	<u>478,848</u>	<u>1,040,171</u>	<u>971,221</u>
Operating Income (loss)	<u>\$ 60,143</u>	<u>\$ (78,692)</u>	<u>\$ (18,549)</u>	<u>\$ 50,233</u>

LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY  
COMMUNICATIONS PLANT  
DECEMBER 31, 2007

Schedule 1

	Utility Plant						Accumulated Depreciation				
	Balance January 1, 2007	Additions	Transfers	Deletions	Balance December 31, 2007	Depreciation Rate	Balance January 1, 2007	Expense	Transfers	Retirements	Balance December 31, 2007
<u>TELEPHONE PLANT</u>											
<u>Distribution System</u>											
Head end equipment	\$ 59,681	\$ -	\$ -	\$ -	\$ 59,681	10.00%	\$ 45,202	\$ 5,968	\$ -	\$ -	\$ 51,170
<u>Other Equipment</u>											
Office furniture and fixtures	14,854	1,432	-	-	16,286	6.70-20.00	8,404	976	-	-	9,380
Transportation equipment	12,759	-	-	-	12,759	20.00	12,759	-	-	-	12,759
Laboratory equipment	11,944	2,326	-	-	14,270	10.00	7,814	1,607	-	-	9,421
Communication equipment	548	-	-	-	548	10.00	475	55	-	-	530
	<u>40,105</u>	<u>3,758</u>	<u>-</u>	<u>-</u>	<u>43,863</u>		<u>29,452</u>	<u>2,638</u>	<u>-</u>	<u>-</u>	<u>32,090</u>
Total telephone plant in service	<u>99,786</u>	<u>3,758</u>	<u>-</u>	<u>-</u>	<u>103,544</u>		<u>74,654</u>	<u>8,606</u>	<u>-</u>	<u>-</u>	<u>83,260</u>
<u>CATV AND INTERNET PLANT</u>											
<u>Distribution System</u>											
Land	8,280	-	-	-	8,280	0.00	-	-	-	-	-
Towers and antennas	142,058	-	-	-	142,058	5.00	56,824	7,103	-	-	63,927
Buildings	7,105	-	-	-	7,105	5.00	2,827	355	-	-	3,182
Tower site equipment	18,545	-	-	-	18,545	10.00	14,637	1,855	-	-	16,492
Head end equipment	642,814	47,232	-	-	690,046	10.00	381,554	74,473	-	-	456,027
Satellite dishes	52,589	-	-	-	52,589	10.00	42,072	5,259	-	-	47,331
Traps and filters	9,366	-	-	-	9,366	20.00	9,366	-	-	-	9,366
	<u>880,757</u>	<u>47,232</u>	<u>-</u>	<u>-</u>	<u>927,989</u>		<u>507,280</u>	<u>89,045</u>	<u>-</u>	<u>-</u>	<u>596,325</u>
<u>Other Equipment</u>											
Office furniture and fixtures	11,288	2,379	-	-	13,667	6.70-20.00	7,772	603	-	-	8,375
Transportation equipment	8,506	-	-	-	8,506	20.00	8,506	-	-	-	8,506
Laboratory equipment	13,239	997	-	-	14,236	10.00	8,333	1,493	-	-	9,826
Communication equipment	366	-	-	-	366	10.00	317	36	-	-	353
	<u>33,399</u>	<u>3,376</u>	<u>-</u>	<u>-</u>	<u>36,775</u>		<u>24,928</u>	<u>2,132</u>	<u>-</u>	<u>-</u>	<u>27,060</u>
Total CATV and internet plant in service	<u>914,156</u>	<u>50,608</u>	<u>-</u>	<u>-</u>	<u>964,764</u>		<u>532,208</u>	<u>91,177</u>	<u>-</u>	<u>-</u>	<u>623,385</u>
Total Utility Plant	<u>\$1,013,942</u>	<u>\$ 54,366</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$1,068,308</u>		<u>\$606,862</u>	<u>\$ 99,783</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$706,645</u>

LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY  
COMMENTS ON BALANCE SHEET  
DECEMBER 31, 2007

<u>CAPITAL ASSETS</u>	Cost	\$1,068,308	
	Accumulated Depreciation	<u>706,645</u>	<u>\$ 361,663</u>

Details of the utility plant are shown in the preceding schedule.

<u>CASH AND CASH EQUIVALENTS</u>	<u>\$ 93,457</u>
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This balance consists of the following:

	Interest Rate	Amount
Demand deposit NOW account:		
Laurens State Bank - money market account	3.25%	<u>\$ 93,457</u>

<u>ACCOUNTS RECEIVABLE</u>	<u>\$ 90,244</u>
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This balance consists of the following:

Accounts receivable - cable, internet, and telephone sales:	
November 15, 2007 - December 15, 2007 and past due	\$ 51,951
December 16, 2007 - December 31, 2007	2,031
Accounts Receivable Access Fees:	
October 19, 2007 - November 19, 2007 and past due	19,906
November 20, 2007 - December 31, 2007	23,356
Less: Allowance for doubtful accounts	<u>(7,000)</u>
	<u>\$ 90,244</u>

<u>DUE FROM ELECTRIC UTILITY</u>	<u>\$ 322,746</u>
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This balance consists of funds loaned to the electric utility.

<u>PREPAID EXPENSES</u>	<u>\$ 2,374</u>
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This balance consists of the following:

Prepaid insurance	<u>\$ 2,374</u>
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<u>ACCOUNTS PAYABLE</u>	<u>\$ 198,668</u>
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This balance consists of the following:

Pocahontas E911 - 4 <sup>th</sup> quarter E911 fees	\$ 2,262
Long Lines - Telephone fees	6,395
Long Lines - Carrier access billing fees	8,865
Laurens Municipal Broadband Communications Utility - Joint use fees	175,000
City of Laurens - Franchise fees	5,906
Various, each less than \$1,000	240
	<u>\$ 198,668</u>

OTHER CURRENT AND ACCRUED LIABILITIES

\$ 8,945

This balance consists of the following items:

Accrued vacation, payroll and benefits	\$ 5,736
Accrued sales, use, and excise tax	<u>3,209</u>
	<u>\$ 8,945</u>

NET ASSETS

\$ 662,871

Following is a summary of the changes in this account during 2007:

Balance, January 1, 2007	\$ 681,420
Change in net assets	<u>(18,549)</u>
Balance, December 31, 2007	<u>\$ 662,871</u>

**HUNZELMAN, PUTZIER & CO., PLC**  
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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Trustees  
Laurens Municipal Broadband Communications Utility  
Laurens, Iowa

We have audited the accompanying financial statements of Laurens Municipal Broadband Communications Utility, as of and for the year ended December 31, 2007, and have issued our report thereon dated June 23, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Utility's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Utility's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Utility's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Utility's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of the Utility's financial statements that is more than inconsequential will not be prevented or detected by the Utility's internal control. We consider the deficiencies in internal control described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the Utility's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items (A) and (B) are material weaknesses.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Utility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Utility's operations for the year ended December 31, 2007, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The Utility's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Utility's responses, we did not audit the responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Laurens, Iowa and other parties to whom Laurens Municipal Broadband Communications Utility may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Utility during the course of our audit.

Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

June 23, 2008



LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY

SCHEDULE OF FINDINGS

YEAR ENDED DECEMBER 31, 2007

Findings Related to the Financial Statements

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES

- (A) Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that bank deposits, opening mail, recording receipts and disbursements, checks and payroll preparation, and bank reconciliations are all handled by two individuals.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the Utility should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - The Board of Trustees along with the General Manager will review the financial statements and internal control procedures, in detail, every month. The duties of opening mail, bank deposits, recording receipts and disbursements, bank reconciliations and payroll preparation will be monitored daily by the General Manager. The Utility will continue to require two (2) signatures on all check disbursements.

Conclusion - Response accepted.

- (B) Financial Reporting - We noted that while management is capable of preparing accurate financial statements that provide information sufficient for Utility board members to make management decisions, reporting financial data reliably in accordance with U.S. generally accepted accounting principles (GAAP) requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including footnote disclosures. Management presently lacks the qualifications and training to appropriately fulfill these responsibilities, which is a common situation in small entities.

Recommendation - Obtaining additional knowledge through reading relevant accounting literature and attending local professional educational courses should help management significantly improve in the ability to prepare and take responsibility for reliable GAAP financial statements.

Response - The Utility will work to obtain additional training for our staff in order to improve our ability to prepare reliable monthly financial statements. The Utility will continue to work with our auditors on a monthly basis in order to keep our records up to date.

Conclusion - Response accepted.



LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY

SCHEDULE OF FINDINGS

YEAR ENDED DECEMBER 31, 2007

Other Findings Related to Statutory Reporting

1. Budget - Utility expenditures during the year ended December 31, 2007, did not exceed the amounts budgeted.
2. Questionable Expenditures - We noted no expenditures which may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
3. Travel Expense - No expenditures of Utility money for travel expenses of spouses of Utility officials or employees were noted.
4. Business Transactions - We noted no business transactions between the Utility and Utility officials or employees.
5. Bond Coverage - Surety bond coverage of Utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
6. Trustee Minutes - No transactions were found that we believe should have been approved in the Trustee minutes but were not.
7. Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa.
8. Telecommunications Services - No instances of noncompliance with Chapter 388.10 of the Code of Iowa were noted.